Speech

Dr. Dieter Zetsche

Chairman of the Board of Management

of Daimler AG

and Head of Mercedes-Benz Cars

Daimler 2017: Daimler and the transformation of the automotive industry

Annual Shareholders' Meeting of Daimler AG
Berlin

March 29, 2017

EMBARGO TIME: MARCH 29, 2017, Beginning of the Speech of Dr. Dieter Zetsche

- Check against delivery –

Content

Introduction

Ladies and gentlemen:
welcome to the Annual Shareholders' Meeting of your company!

The ideas, the skills and dedication of our workforce have made Daimler into a pioneer of mobility for more than 130 years. But we have never been as successful. We have set new records for sales, revenue, and earnings, and our profitability was at the targeted level once again. With regard to Mercedes-Benz, we have already accomplished what we set out to achieve by 2020 – namely, to make Mercedes-Benz the number one automaker in the premium segment. So I would like to start by sincerely thanking all of our employees for their untiring dedication and outstanding work!

You, our shareholders, also profit from the success of the company, as this year Daimler will pay out a total dividend of €3.5 billion. With a dividend yield of 4.6 percent, our shares remain a very attractive investment. We demonstrated once again in 2016: The combination of financial strength and innovativeness is stronger than ever at Daimler. The capital market has also taken notice of this, as both Standard & Poor's and Moody's recently raised our credit rating.

At the same time, we initiated the biggest transformation in our company history last year. Daimler continues to evolve from a position of strength in order to better serve the interests of the next generation of customers, employees and shareholders. This is the most fascinating process imaginable – and the most challenging as well. Nevertheless, we on the Board of Management are well prepared for it. For example, with Britta Seeger, Ola Källenius and Martin Daum, Daimler has appointed outstanding people to three key executive management positions. Together with our 282,000 colleagues, we are shaping the transformation of our industry in order to become even more successful.

At the moment, it appears that the future of the automotive industry will primarily be marked by opposites such as electric drive versus combustion engines, autonomous driving versus driving pleasure, vehicle ownership versus shared mobility and humans versus robots. We, however, do not view these things as contradictory. At Daimler, we are convinced that mobility will simply become even more multifaceted. It is necessary to do one thing without stopping with the other. That's why we are strengthening both: the new and the old. This is what I'd like to talk to you about today.

Electric drive and combustion engines

Let us begin where the transformation at Daimler is the most tangible – with our products. Our strategy focuses on emission-free driving. We are taking major steps forward here as we continue to move closer to achieving that goal. We will invest 10 billion euros in the expansion of our electric fleet over the next few years. Between now and 2022, we will launch series production of more than ten new electric vehicles – from a smart to a large SUV. With our EQ brand, we are creating an entire ecosystem for electric mobility.

However, no one can say for certain today when exactly electric motors will replace conventional combustion engines as the dominant drive system in the market. Nevertheless, going forward, we must do everything we can to further reduce CO_2 emissions. That's why efficient combustion engines will be an important part of the solution for a transitional period. It's also a fact that modern diesel engines emit much less CO_2 than gasoline engines.

You've likely heard that the state attorney's office in Stuttgart launched an investigation into the activities of certain Daimler employees last week. Naturally, we are fully cooperating with all authorities. I would like to stress the fact that neither the Federal Motor Transport Authority nor the Federal Transport Ministry reported any violations of applicable law after they conducted tests with our vehicles.

Diesel engines have been a topic of discussion in our industry for one-and-a-half years now. It's also quite understandable that the discrepancies between emissions in the lab and emissions on the road have led to many questions. That's why it's all the more important to have clear regulations and transparent and realistic testing procedures. We've been promoting both of these aspects for quite some time.

Irrespective of those issues, we continue to work systematically on the further improvement of our high-tech engines. Just over five years ago, we decided to establish a new engine family. The first of these engines premiered last year in the E-Class, making us the first manufacturer to launch diesel vehicles that already comply with the emission limits that aren't scheduled to go into effect in the EU until September 2017.

The plug-in hybrid represents a key technology for bridging the gap as we move toward electric mobility, and this technology is already having an impact today. Mercedes already offers eight plug-in hybrid models, and more will follow. We believe in the simple principle: Alternative drive systems must be attractive drive systems. If we want to ensure a successful automotive energy transition, then we shouldn't discriminate politically against combustion engines, but instead make electric drive more attractive. We at Daimler can do that. Today, we already have the technology to develop electric automobiles that have a range not much shorter than that of a combustion-engine car, but which in some respects also offer even greater driving pleasure.

Battery technology has reached a point that would have been difficult even for experts to imagine just a few years ago. In fact, even a heavy-duty electric truck can now achieve a range of up to 200 kilometers. We are demonstrating this with our Urban eTruck. In the future, electric vans and trucks will be used to deliver food and other goods to people, because urbanization is increasing around the globe and greater restrictions are being put on vehicle access to inner cities. That's why we will launch a small production series of the Urban eTruck on the market before the year is out. And just yesterday, Mercedes-Benz Vans announced a strategic partnership with the logistics company, Hermes. We will supply Hermes with 1,500 electric vans by the year 2020.

Self-driving vehicles and driving pleasure

However, the radical transformation in the auto industry goes far beyond new drive systems. The automobile has always been more than simply a means of transportation. Do you remember the feeling you had when you received your first driver's license? It was your entry ticket to a wider world. Autonomous driving opens up yet another new dimension of individual freedom. How does it do that?

On average, you spend two and a half years of your life in a car. Part of this time is pure fun. For the rest of the time, the autonomous car will give us the option of working, relaxing or being entertained while we're on the road. This means you have a choice. Do you want to enjoy the journey as a passenger, or would you prefer to take over control of the car yourself? We're not going to abolish the steering wheel. And I promise you, we will always build cars whose steering wheels you won't really want to let go of.

But in the future, the autonomous electric car will also come to us via an app exactly when we need it. It could drive us to work, then take our laundry to the drycleaners, pick up our purchases from the supermarket, park outside the city, and later on pick us up from work. Autonomous cars also restore mobility to elderly people or people with disabilities. And they make road traffic safer. You can already experience many aspects of autonomous driving today. Our production cars already independently change lanes, apply the brakes in an emergency, and park themselves.

And because the public focuses mainly on cars when the topic of autonomous driving is being discussed, I'd like to emphasize that our trucks and buses are also pioneers of autonomous driving in their respective segments.

Shared mobility and growth

Digital mobility services will be a further component of traffic in the big cities of tomorrow. Daimler is the global market leader in the field of flexible car sharing. We are expanding our activities here as well. In Munich we are testing car sharing with private cars. Meanwhile, mytaxi has the biggest app-based taxi network in Europe. And Mercedes pay will enable customers to conveniently pay for our services via smartphone in the future.

At this point you might be wondering, "Why should we be helping customers to no longer need cars of their own?" The decisive point is not what we want. The decisive point is what customers want. And they have differing preferences.

For some people, owning a car in a big city is of limited benefit. They prefer to use Daimler services such as moovel. This app gives them access to many different mobility options. However, in global terms, doing without a car is a fringe phenomenon. Most people would like to have a car of their own. And lots of them want one with the Mercedes star. That's why we've been posting record unit sales at Mercedes for the past four years in a row, month by month. In 2017 as well, we have so far been the leading premium brand – in China and around the world.

What's more, if the popularity of the sharing economy continues to grow, luxury will become more affordable and thus accessible to more and more people. That's also good news for premium products. It means that our business continues to be a growth business. It's possible that about 100 million cars will be sold annually by 2025. That would be 20 percent more cars than are sold annually today. With the help of our financial services as well as via direct sales, we will strive to secure the largest possible piece of this pie for ourselves.

After all, at Daimler we offer both: emotional products that people want to own and innovative mobility concepts for those who don't necessarily want to have a car of their own.

Freight traffic is also in need of intelligent concepts. With our Vision Van, we are linking up the entire delivery process. The Vision Van is equipped with a fully automated cargo area. It takes only five minutes to load it up. The system uses data about the location in order to give the courier the right package at the right time. Delivery drones could also be utilized in this process. We think this approach could increase efficiency by 50 percent during the last mile of a delivery.

People and machines

The key to all of these future-oriented topics is the link between human and artificial intelligence. Today, the computer can already make medical diagnoses, formulate legal arguments – and bluff during poker games. The appropriate use of artificial intelligence could become an engine of growth for the economy, because it would boost productivity. Human beings could then concentrate on tasks that are beyond the abilities of artificial intelligence.

In 2013, researchers used a Japanese supercomputer in an attempt to simulate human brain processes. The computer needed 40 minutes to accomplish just one percent of what our brains achieve in one second. To put it another way, a human being outperforms the computer by a factor of 240,000. Of course, computer performance is progressing by leaps and bounds. But machines are still far from the intelligence in daily life that human beings possess.

Smart cooperation between humans and machines offers huge opportunities – for example, in our production plants. You can see what that looks like in practice today about 30 kilometers from here in Ludwigsfelde. That's where we build Sprinter vans. The assembly line used to be lined with mesh baskets and shelves full of materials. The workers had to search for individual parts, fetch them and install them. Today, robot carts bring the materials to each vehicle on the assembly line, fully autonomously and precisely in time with the rhythm

of production. Workplaces are becoming more ergonomic. Our production workers now have shorter walking distances, are subject to less noise and enjoy greater safety along the assembly line. Besides, production times have been reduced and capacity utilization has been enhanced. Quality has reached a record high. To conclude, human beings and machines work most efficiently when they work hand in hand.

Autonomy and partnerships

However, it's also true that as a result of digitalization and electrification, some jobs will disappear over the long term. We have a clear policy regarding this development: We're not protecting any job profiles. Our priority is to protect our employees. And our production facilities in Germany will continue to be the backbone of our global production network in the future. For example, we are investing about €500 million in our own battery production operations in the town of Kamenz in Saxony.

Basically, we want to have control over what differentiates us from the competition. In other areas, we are increasingly cooperating with other companies.

For instance, we are partnering with a series of manufacturers to create a high-powered network of fast charging stations in Europe. And we are working together with ChargePoint to develop new products and services in the area of e-mobility. Both of these measures will help to establish electric cars more rapidly in the mass market. Another example is HERE. We acquired this specialist company for highly precise digital maps together with BMW and Audi. Meanwhile, some other companies have also invested in HERE and will contribute their own expertise. By combining our strengths, we will further develop this key technology for autonomous driving.

The reasoning behind these projects is simple. Building cars is like a decathlon. Anyone who wants to be in the lead on a sustained basis has to master many disciplines. In some disciplines, we've been strong for decades, and we are continuing to enhance our leadership. In others, we are continuously learning. To do that, we need openness, a desire for change, and readiness to cooperate.

These qualities are in demand not only in the auto industry but also, today more than ever, throughout our entire economy and society. In many countries, 2017 is an election year. And this raises important questions: Do we want to regress to a Europe of small nation states, or move forward together toward a better union? Will we allow radical voices to provoke us, or do we have the strength to integrate others? Will we commit ourselves to nationalism and protectionism, or to freedom and free trade?

As citizens, each of us must answer these questions for himself or herself. But on behalf of Daimler, I would simply like to remind you that growth and prosperity thrive through cooperation rather than isolation. This is the attitude that has made your company strong. And that's why I count on your agreement as we continue to openly stand up for these values in the future.

Perfection and the startup spirit

Ladies and gentlemen,
please let me address one final topic in which we need to resolve an apparent contradiction. Perfection and a pioneering spirit are not a matter of "either/or" – we are strengthening both aspects.

Instead of explaining why something is impossible or at least unlikely, but in any case too expensive, we want to give good ideas better opportunities. Willingness to take risks is not exactly a typical strength of large companies. We have entire departments that deal with risk management. And that's a good thing, because hundreds of thousands of jobs are at stake. That's why in some areas we are continuing to avoid all risks. In our production plants, we have our zero-error target. In our Mercedes cars, what counts is absolute perfection.

We make the same claim concerning integrity and compliance. We are constantly working to embed our shared understanding of ethically correct behavior even more strongly within our company. You can see that in our training programs, for example. Last year alone, almost 73,000 of our employees participated in training courses devoted to integrity and compliance. About half of those employees received training in antitrust law. At the end of 2016, KPMG successfully concluded its investigation of our compliance program with regard to antitrust law. But compliance is a never-ending topic. That's why we're continuously improving our compliance systems in order to further minimize the risk of misconduct.

However, in terms of the technologies of tomorrow, the biggest risk for jobs would be posed if our company were to hold fast to the status quo. That's why we've organized small teams at Daimler that work in the same way as startups, with short decision-making paths and lots of freedom to develop. But that alone is not enough. The entire Group has to keep moving forward. That was one of the reasons why we launched the Leadership 2020 program.

Before that, we would probably have done things as follows: The Board of Management would have defined a set of measures. Those measures would have been announced throughout the organization. And everyone would have implemented them – or not. But cultural change cannot be brought about on command. And that's why we worked the other way around in Leadership 2020. We gave up control. And a team of international colleagues from various units and different levels of the hierarchy took the initiative. The ideas they came up with far exceeded our expectations.

Now we're in the middle of their implementation. For example, 20 percent of our employees will be working in swarm organizations in the foreseeable future. We are promoting the pioneering spirit of our workforce by providing venture capital for the implementation of new ideas. And in the future, a maximum of two hierarchy levels will be involved in making decisions. These examples are only the beginning. In the future, the changes at Daimler will go even deeper. And that's a good thing!

Of course, one might wonder why a company should change when it's already doing so well. In the first place, I believe that every company can become better. In the second, the framework conditions are changing. New competitors are demanding a new spirit of cooperation. New technologies are requiring new skills. And a new generation of talented young people is calling for a new corporate culture. We are not reinventing ourselves just because we have to. We're doing it because we want to. In my entire career at Daimler, I've never before felt such a strong will to change.

Conclusion

Ladies and gentlemen,

technological paradigm shifts often result in the former top dog of a sector being replaced. But we've got everything we need to resist that pattern. After all, questioning the established mobility system was also our starting point when we invented the automobile more than 130 years ago. The future offers Daimler a multitude of new opportunities. And we will do our utmost to take advantage of them. In other words, we will strengthen both our new initiatives and our well-established advantages.

In a few days, we will present the car that embodies this approach in New York and Shanghai: the new S-Class. For the past 45 years, this car has been regarded as the best in the world. The new model will also set the benchmarks in automobile construction – for example, by taking a further big step toward autonomous driving. The success story of the S-Class shows that every era has different expectations with regard to the best. Those who want to stay in front must constantly develop. That applies to cars and to companies. And I'd like to invite you to continue accompanying us as we travel into the future.

Thank you!

* * *